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PROSPECTS FOR PRIVATISATION IN BELARUS

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Summary

The research studies the prospects of privatisation of state-owned enterprises and attracting foreign investment, considering both domestic and international factors as of November 2008. The financial crisis has spread over the real sector of economy in the region, which makes the framework for the functioning of Belarusian economy. It has caused the Belarusian government to make a considerable change of plan in the field.
The government has far-reaching plans to turn Belarusian enterprises into joint-stock companies with a view to selling a share of state property to foreign investors. Yet, they are highly unlikely to be completely fulfilled by the appointed time. However, the growing shortage of foreign currency on the domestic financial market is going to give the government additional motivation for fast privatisation of big enterprises. On the other hand, due to the shortage of financial resources in the region, potential investors are likely to become less interested in Belarusian enterprises. For these reasons, as well as considering certain institutional factors, in the nearest future privatisation will mainly go along the lines of direct agreements with the Presidential Administration and the government. It will generally involve banking and those enterprises which either dominate the whole economic sectors or have a potential to do so.

1. Introduction

BISS has more than once analysed the privatisation processes in Belarus and their prospects. BISS experts agree with most of their colleagues in Belarus and abroad that privatisation is such a tool to maintain social and economic stability that the Belarusian government will not resort to unless others are unavailable or inefficient. We supposed that in 2007 – 2008 the country would see 'single-point' privatisation of state property, which would not cause any structural friction within the current economic model.

It turned out a well-grounded prognosis. For the past two years, apart from *Beltransgaz*, the government has sold its shares in *Velcom* and *BEST* mobile phone operators, some minor banks, including the MTB, BNB, *Mezhtorgbank* and *Paritetbank*, as well as *Motovelozavod* bike-producing plant and some breweries, acquired by Heineken.

At the same time, the government has been 'preparing Belarus for sale'. Official propaganda mouthpieces have changed their information policies on privatisation and the legislature has been amended. Large-scale privatisation plans (by Belarusian standards) have been made public and the government has made lists of enterprises to be privatised in 2008 – 2010. The lists include 519 state-owned enterprises, of which 176 were to be sold in 2008. However, by 1 November 2008, only one of them has been actually sold.

In other words, there may be plans for privatisation and some preparation work may well have been completed, but neither the government nor the enterprises' chief executives speed up the process. Instead, they prefer to rely on other tools, such as 'a privatisation and loan cocktail' (Kirył Hajduk's definition), in order to maintain social and economic stability and keep the socio-economic relations unchanged. So far, the state of the market has not required fast action from the government.

However, such factors as the global financial meltdown, negative tendencies on the major markets for Belarusian products, the increase in the adverse balance, as well as loans becoming less available will certainly push the government to take more drastic action. In what way are the new challenges going to influence the privatisation process? What course of action seems the most practical and most probable?

To answer these questions, the research gives an overview of steps already taken towards privatisation and the plans that the government has made public. We also highlight the current privatisation rules and analyse the stimuli and obstacles to privatisation of state property. The paper also studies the impact of the above-mentioned factors on the most likely privatisation deals.

The conclusion contains some recommendations that can be used both by investors, Belarus's international partners and the government.

2. Preparing the Legislative Framework

The BISS report points out_that since 2007 the Belarusian government has changed its attitude to foreign investment in the form of both new businesses and classical privatisation. In 1996 – 2006 privatisation in Belarus was restricted to a sluggish process, which resulted in enterprises formally being reorganised into joint-stock companies, with the state as their main shareholder. (For example, in 2006 – 2007 less than 6 enterprises per year became joint-stock companies, with the state possessing 99.99 per cent of their shares.) In 2007, however, some rather important transactions took place, to bring about $1.5 billion in budget revenues. Among them are selling *Beltransgaz* to Russian *Gazprom* ($625 m annually in 2007 – 2010), *Velcom* mobile phone operator ($650 m) and a number of minor banks. All the transactions were marked by lack of transparency and depended on the President's unilateral decisions.

This year the banking sector and telecommunications have taken the lead in privatisation deals. Here it is worth mentioning *Golden Taler*, VTB, the increase in Raiffeisen's share and *BEST*. At the same time, the country's authorities have prepared a legislative framework for more profound large-scale privatisation. The government has made a list of 198 enterprises to be reorganised into joint-stock companies by 2010 and worked out reorganisation procedure with a view to selling the shares owned by the state.

Here are the most noticeable changes in the legislative framework, intended at privatisation and liberalisation of the investment climate:

- amendments to the registration procedure for businesses (Decree No. 8 of 17 December 2007);
- abolition of the so-called 'golden share' (Decree No. 144 of 4 March 2008);

- gradual withdrawal of the moratorium on the circulation of shares acquired during the privileged privatisation (Decree No. 7 of 14 April 2008);
- tax cuts on shares and bonds transaction income (Decree No. 5 of 20 March 2008);
- regulations on issuing corporate bonds and their transactions (Decree No. 194 of 2 April 2008);
- amendments to the limited liability companies' share-buying procedures for emitters and insiders (Ministry of Finance Resolution No. 133 of 29 September 2008);
- specifying the preferential terms of sale of unprofitable enterprises (Decree No. 113 of 25 February 2008);
- setting quarterly deadlines for paying a number of taxes (Decree No. 145 of 6 March 2008);
- partial price-control liberalisation (Decree No. 694 of 30 December 2007, Government's Resolution No. 252);
- specifying the sales procedure for unused property (Government's Resolution No. 605 of 24 April 2008);
- specifying the land privatisation procedure (Decree No. 667 of 27 December 2007 and Government's Resolution No. 462 of 26 March 2008);
- making the list of state-owned enterprises to be privatised (Government's Resolution No. 1021 of 14 July 2008);
- increasing the foreign capital quota in banking from 25 to 50 per cent (Resolution No. 129 of the National Bank Board of 1 September 2008).

A more detailed account of documents on privatisation passed up to July 2008 is available at: Privatisation in the Republic of Belarus: Basic Changes Monitoring (January – June 2008):

Although the work that has been done in this direction can hardly be called all-embracing, it proves that the process is very likely to become irreversible. After all, it is engaging more and more state institutions and the emerging groups interested in the privatisation process are strengthening their lobbying potential.

At the same time, most of the privatisation and economic liberalisation amendments were made at the end of 2007 and early in 2008. During the last six months of 2008 the country's authorities have been mainly specifying the procedures of reorganising the enterprises to be privatised into joint-stock companies, working out privatisation mechanisms and negotiating with potential investors.

The state institutions view the programme of reorganising the enterprises into joint-stock companies as a tool to strengthen the state's standing in negotiations with potential investors and a way to speed up clinching the deals. However, at present it can hardly be claimed that privatisation is going fast enough. Thus, by November 2008 only one enterprise from the privatisation list (Arančycy Poultry Factory in Brest region, to be exact) has been reorganised into a joint-stock company. Still, 148 out of the 176 enterprises have set up 'reorganising commissions' and 163 of them have taken a decision to be reorganised into joint-stock companies.

In other words, it is evident that the reorganisation and privatisation plan will not be completely fulfilled by the fixed date. There are strong grounds for that, and we are going to dwell on them in Part 4. However, this is not to say that privatisation is not going to take place at all. We should bear in mind that the property structure in Belarus has been gradually changing for the past two years. This is most vividly proved by the National Bank's resolution of 1 September 2008 on increasing the foreign capital quota in banking from 25 to 50 per cent.

3. The 2007 – 2008 Privatisation Deals

Within the given period privatisation deals were concluded through a) selling the state's share in banks and some real economy enterprises and b) foreign investors joining in the

existing private companies. The second type of transactions was more common. It is the financial sector that was in the lead in both the types.
Here are the most noticeable deals of 2007 – 2008:

Banking

- 53.6% of *Slavneftebank* sold to Russian VTB Bank, *Slavneftebank* renamed as VTB Bank;
- 48.5% of the state's share in *Belvniesheconombank* sold to Russian *Vniesheconombank.* The Russian bank also bought shares from other stockholders and increased its share of *Belvniesheconombank* to 92.3%;
- 38.94% of the state's share in Belarusian *Mezhtorgbank* sold to ABH Ukraine Ltd management company (Cyprus), which is a subsidiary of *Alphabank Ukraine Inc*. Through buying other stockholders' shares the Russian *Alpha Group* has consolidated 88.045% of the bank's shares;
- The Northern Investment Bank's control share sold to Ximex Co. (UK). The Northern Investment Bank Inc. was renamed as *Credexbank* Inc.;
- 99.999% of *Atom-Bank* Inc. sold to a Ukrainian strategic investor. *Atom-Bank* Inc. was renamed as *Delta Bank* Inc.
- 83% of the International Reserve Bank sold to Dogmat Group;
- 75% of SOMbelbank Inc. sold to Getin Holding S.A. Group (Poland);
- 100% of *Lorobank* sold to Home Credit Group. Lorobank was renamed as HCBank;
- 31.5% of Minsk Transit Bank sold to Monitor Investments Ltd, which is a branch of Horizon Capital investment fund (USA);
- 66% of the Belarusian AstanaEximBank sold to the Kazakh TuranAlem BTA Bank. AstanaEximBank renamed as BTA Bank. The Kazakh investor's share then increased to 99.29%;
- 70% of the Belarusian People's Bank (BNB) sold to the Bank of Georgia;
- Both *Gazprom* and *Gazprombank* have increased their shares in *Belgazprombank* from 42.73% to 48% each;
- Raiffeisen Group (Austria) has increased its share in Belarusian *Priorbank* to 81.41%.

Due to these transactions on 1 August 2008 22 of the 28 banks had foreign capital in their authorised capital stock. 16 of them had over 50% of foreign investment in their authorised capital stock. According to Head of Banking Supervision Department Siarhiej Dubkou, early in October 2008 the share of foreign capital in the Belarusian banks' aggregate authorised capital stock made 22.2%, as compared to 17.1% on 1 August 2008, 9.84% on 1 January 2008 and 7.84% on 1 January 2007.

Real Economy

- 50% of the state's share in *Beltransgaz* sold to *Gazprom* (the overall sum of $2.5 billion is to be paid in equal instalments during a period of four years);
- 99.72% of the state's share in *Motovelozavod* sold to ATEC Holding GmbH (Austria);
- the state's share in Hasteła Experimental Plant joint-stock company sold to the Belarusian *Amkodor* joint-stock company;
- 83.64% of the state's share in *Krasny Oktyabr* joint-stock company sold to Belarusian-German company *San Marko*;
- 100% of Detroit Investments Ltd (Cyprus), which owned *Siabar* brewery in Babrujsk, bought by Heineken;
- 51% of *Rečycapiva* brewery bought by Heineken.

Infrastructure and Communications

- 80% of the state's and state enterprises' share in *BEST* sold to Turkish *Turkcell.*

All in all, according to the State Property Committee, by the beginning of October 2008 the special national development fund of the country's budget received 5.691 billion Belarusian roubles and $1.125 billion from selling the state's shares in different companies.

4. Privatisation Rules

The alienation of the state-owned enterprises and buildings (except dwelling houses) worth over 10,000 base units (1 base unit= BR35,000=$16.6, so 10,000 base units make $166,000), machinery, equipment and vehicles worth over 10,000 base units as well as shares in companies can only take place on the President's decision.

The approbation procedure for selling the shares of joint-stock companies organised within the framework of privatisation of state property, which are to be sold in 2008 – 2010, looks as follows.

The joint-stock company takes a decision on the per cent of shares to be sold and the selling mechanism (a tender, auction, etc.). The decision needs to be approved by the surveillance body that administers the shares (as a rule, it is the Ministry in charge of a given branch of industry). If necessary, the surveillance body amends the joint-stock company's propositions on both the per cent of shares and the selling mechanism and submits the information to the State Property Committee.

The State Property Committee, which owns and commands the shares, in this capacity drafts up the presidential resolution on selling the shares and submits it to the Government to be approved of and further submitted to the Presidential Administration. Once the President has taken his decision and the shares have been valued, the State Property Committee holds an auction or a tender to sell the shares.

A potential investor's proposition on buying a block of shares can be addressed either to the joint-stock company itself or to any of the state institutions engaged in privatisation.
At present the state institutions are drafting their proposals towards raising the Government's and the State Property Committee's competence in state property management. In particular, they are discussing a possibility of raising the minimal value of real estate to be alienated on the President's decision only from the today's 10,000 base units to 1 m base units, i.e. $16.6 m.

Selling the Shares to an Investor Directly

The state sells the most important enterprises through direct negotiations with potential investors, which result in a block of shares being sold at the negotiated price. For example, this is how 50% of *Beltransgaz* was sold to *Gazprom* and a share in *BEST* was sold to *Turkcell*. Bilateral negotiations are supposed to determine all the terms, ranging from the percentage of shares to be sold to the investor's obligations concerning the development of the acquired assets and deadlines for these obligations, etc.

Putting Shares out to Tender

The factors to be considered are the price offered for the shares, the terms of contributing assets towards the development of the joint-stock company or other additional terms. If the winner acquires more than 50% of shares in the authorised capital, additional terms may be put forward. These may refer to maintaining and/or creating a certain number of jobs, keeping the assortment of goods and services, carrying out or participating in eco-friendly measures, maintaining the enterprise's specialisation, preserving the existing labour safety system, maintaining and investing in social facilities (kindergartens, children's camps, health resorts, etc.) owned by the joint-stock company or used on a free basis for a fixed period, etc.

An Auction Sale

In an auction, a joint-stock company's shares are sold in a single lot or several lots. The one who bids the highest price for each lot is recognised as the winner. Following the auction, the State Property Committee concludes a purchase contract with the winner within ten days since the auction.

The Investor Joining In the Founders at the Transformation Stage

The Belarusian law has a provision that the state represented by its authorised institution shall be the founder of a joint-stock company transformed from a state-owned unitary enterprise. The transformation procedure includes a number of stages, such as holding a general meeting of the staff to take a decision on initiating the transformation into a joint-stock company, drafting a project to establish a joint-stock company, getting an approval from a number of state institutions and making a decision on the transformation into a joint-stock company.

At the stage of the general staff meeting a potential investor can join in the founders alongside the state.

This method has a number of advantages as compared to buying the shares of a newly-established joint-stock company, as it enables the investor to get much more information on the state of things at the transformed enterprise and avoid the risk of clashing with unwanted competitors in an auction or tender. However, the State Property Committee high-ranking officials object to a large-scale implementation of this scheme. Their reasoning is that in this case the state is put at disadvantage, since the funds contributed by the investor are controlled by the company.

Emission of New Shares

Increasing the authorised capital stock by attracting investors' funds through emission of new shares to be placed with investors is another way of attracting investment into joint-stock companies set up within the framework of privatisation.

In fact attracting an investor to an already established joint-stock company means a 'double' increase in its authorised capital stock. Before taking a decision to seek the authorised state institution's approval of the emission of new shares, the enterprise makes a decision to increase its authorised capital through its internal resources, i.e. by emitting new shares or changing the par value of the shares.

Alienation of Other State Property Apart From Shares In an Auction or Tender

In addition, the Law on Privatisation provides for alienation of other state property apart from shares in an auction or tender. This refers to enterprises as property complexes, buildings and equipment, etc. Property worth over 10,000 basic units ($166,000) can be alienated only after the President's decision.

Among others, there is a type of auction in which the initial price goes down until one of the participants is ready to buy the lot.

Presidential Decree No. 113 of 25 February 2008 determines how the initial price of alienated enterprises should be established. The decree is valid for permanently insolvent unitary enterprises having unsatisfactory fiscal health and poor performance. Their initial price can make one base unit only, i.e. BR35,000, which is equivalent to $16.6. The list of such enterprises is drawn up, approved of and authorised on an annual basis.

5. Stimuli to Privatisation

IPM expert Alena Rakava is right in arguing that reforms in Belarus have always been forced by changes in the international environment. The changes in the basic principles of Belarus – Russian energy supplies trade as of 2007 provided an impetus for some liberalisation of economy-related laws and embarking on privatisation.

Here are some factors that cause the government to give away state property:

Table 1. Foreign trade deficit, $ m

	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008*
exports	4803	7326	7451	8021	9946	13774	15979	42085	24275	26720
imports	5564	8646	8286	9092	11558	16491	16708	19734	28693	30801
balance	-761	-1320	-835	-1071	-1612	-2717	-729	22351	-4418	-4081
Trade with Russia	-780	-1895	-1475	-1945	-2722	-4734	-4402	-6254	-8326	-10622

* January – September 2008
Source: http://belstat.gov.by/homep/ru/indicators/ftrade.php

Table 2. Trade Balance Deficit, $ m

	January – June 2007	January – June 2008	Growth, %
Current transactions account	-1,173.5	-1,410.5	20.2

Source: http://www.nbrb.by/statistics/BalPayBelarus/index.asp

Table 3. Belarus – Russia Trade Deficit, $ m

	January – June 2007	January – June 2008	Growth, %
Current transactions account	- 3,324.8	-6,795.3	104.4

Source: http://www.nbrb.by/statistics/BalPayBelRus/

Table 4. Aggregate Foreign Debt Growth, $ m

	01/01/2008	01/04/2008	01/07/2008
Aggregate foreign debt	12,493.5	13,699.9	14,115.6

Source: http://www.nbrb.by/statistics/ExternalDebt/

Experts point out that it is the hike in debt growth rate rather than the amount of debt that causes great anxiety. It is more evident if we consider a longer period, 2003 – 2008.

Table 5. Increase in foreign debt, $ m

	01/01/2004	01/01/2005	01/01/2006	01/01/2007	01/01/2008	01/07/2008
Aggregate foreign debt	4,174.9	4,935.4	5,128.2	6,844.1	12,493.5	14.116

Inefficient fund management, when loans are used to support enterprises showing poor performance.

As the global financial meltdown is spreading over Central and Eastern Europe, it adds up to the factors that force the government to give away state property.

Capital drain in September – October

In September 2008 the banking sphere saw a net capital drain of $420,5 m. Non-residents withdrew only $17.6 m from Belarusian banks, whereas the banks themselves increased their investment into foreign assets by $402.9 m, which means that foreign banks were financed by their subsidiaries.

Tension on the Money Market

Late in October the interest rate in Belarusian roubles on the interbank credit market went up to 18 – 19 per cent. This entailed a rise in the interest on personal loans in foreign currency up to 18 – 20 per cent during the last week of October, as compared to 12.8 – 13.7 per cent in September. The interests on business loans made 14 – 16 per cent, as compared to 10.6 – 10.9 per cent in September.

Under these conditions, banks have begun to limit their crediting activities, for example, by curtailing the maximal amount of a personal loan.

In addition, foreign currency shortage at exchange offices is becoming more and more widely felt, whereas people are getting more and more interested in buying foreign currency.

A Fall in Belarusian Enterprises' Hard Currency Revenues

The crisis on the major markets for Belarusian products has caused a fall in Belarusian exports. There is information that Russian and Ukrainian buyers are withdrawing their 2008 orders, mainly for products of the Belarusian machine-building enterprises, such as Minsk Automobile Works, Minsk Tractor Works and *BelAZ.*

On the one hand, the fall in the enterprises' hard currency revenues undermines the National Bank's efforts to stabilise the exchange rate for the Belarusian rouble; on the other, it results in the enterprises' floating assets deficit.

Production Slowdown

This entails a fall in production output at Belarusian enterprises. In September it decreased by 7.4 per cent as compared to August.

The following statistics can give an idea of the major problem areas in production: dried unskimmed milk –44.9%, washing machines –39.5%, buses –32.5%, trams –25%, compression-type machines –24%, black oil –19.5%, wallpaper –16.1%, loaders –13.3%, bearings –13.2%, bicycles –9.2%, electric motors –8.1%, motorcycles –6.5%, wall materials –6%, tyres –5.4%, fertilisers –4.1%.

Investment Programmes Curtailment

The deficit in funds and high interest rates may have a negative impact on investment into fixed capital. Faced with the crisis, businesses may suspend their investment plans until things change for the better. It should be remembered that investment and consumer demand still remain the main factors driving economic growth in Belarus. Thus, the production slowdown, which is sure to have its negative influence on the GDP growth, could be further aggravated by the investment programmes curtailment.

The Fall in Oil Prices

The fall in oil prices is among major exogenous factors that could worsen Belarus's economic standing. If Belarus fails to persuade Russia to reconsider oil and gas trade terms enacted in 2007, it will lead to the price gap for Belarus and the rest of the region being narrowed. In its turn, in will make Belarusian products less competitive, which will also contribute to the fall in Belarusian exports. Moreover, the fall in oil prices below $84 per barrel (according to IPM) will result in the country's oil and petrochemicals trade balance going in the red.

All this makes the Belarusian government take urgent action to stabilise the economy. Belarus has asked for a stand-by loan of $2 billion from the Russian government, which has already been granted. Its first instalment is to be transferred in November. The country has also applied to the IMF for another $2 billion loan.

In order to encourage enterprises to use credit loans, the government is going to make opening a credit tranche in the exporting country a prerequisite for buying imported equipment. Other purchases of imported machinery and equipment are going to be ceased.

The Ministry of Economy has set the critical figure of foreign debt at 50% of the GDP (at present it makes about 24% of the GDP).

The National Bank's efforts are aimed at stabilising the exchange rate for the Belarusian rouble so that people's trust in the banking system is not undermined. The presidential decree on guarantees on personal deposits and the National Bank's restrictions on commercial banks concerning their management of personal deposits pursue the same goal. Another presidential decree on simplifying the procedure of placing deposits is also supposed to attract extra funds to the banking sphere.

It is evident that these measures will not be enough. According to some experts' estimates, the unstable export situation requires a financial 'cushion' equivalent to three months' exports, which amounts to $8–9 billion.

In all probability, the Belarusian government will do its best to obtain the Russian government's support concerning leasing, state orders and other schemes for purchasing Belarusian products. Yet, even if the Belarusian government succeeds in doing so, it will only stabilise the national economy but the modernisation problem will remain unsolved. Thus, the global financial meltdown stimulates the Belarusian government to speed up privatisation processes.

6. Obstacles to Privatisation

At the same time, there are obstacles to privatisation. It can be argued that the country's leaders were too late to come up with their proposals on the international markets, as the situation has recently changed drastically. Here are some recent tendencies that impede looking for buyers of Belarusian state property.

Loans Becoming Less Available

The global financial meltdown has resulted in money becoming more expensive on the international markets, as well as investors doubting what to put it in. On 10 October, Libor interest rates went up to 4.82 per cent on three-month loans and about 7 per cent on long-term loans. By 5 November, they had fallen again up to 2.51 per cent. According to Goldman Sachs Group chief economist Ian Gatsius, banks are cutting their expenditures, economy is in recession, so it is unlikely that banks will become more willing to give loans to each other in the near future.

Investors Losing Their Interest in Developing Markets

We are observing capital drain from the developing markets, i.e. from the periphery to the centre (the US). Investors have lost their trust in the developing markets. Moreover, experts predict a fall in European companies' profits, so it will be more difficult to find prospective buyers, interested in investing into developing markets. For example, in September investments in Ukrainian economy dwindled by one-third. As for the foreign investment banks' plans to enter the Belarusian market, according to UNITER Co., they have been put off indefinitely. Among the banks that showed their interest in doing business in Belarus, were ING, Barclays Bank and UniCredit, as well as US-based Goldman Sachs and Merrill Lynch, etc.

Investment Funds Deficit in Russia

In their turn, Russian companies are having problems with investment resources. Firstly, they have to seek funds for investment programmes they have already launched. Secondly, due to the general recession their profits have dwindled.
As a result, Russian partners today are less interested in Belarusian assets.

Belarus's Credit Rating Going Down

Standard & Poor's International Rating Agency has brought down its prognosis for Belarus's credit rating from 'stable' to 'negative'. At the same time, it has confirmed its B+ rating for foreign currency, BB for long-term loans and B for short-term loans in Belarusian roubles.

'Belarus's rating change reflects the negative impact of the international economic and fiscal environment on the country's economy,' says its press-release. 'Considerable deterioration in the trade conditions combined with a fall in demand from key trade partners will increase pressure on the current account balance accompanied by limited access to external financial resources and limited cushion due to low external liquidity.'

Inner Institutional Limitations

In addition, there are a number of serious reasons which demotivate state officials in charge of fulfilling the privatisation plan from keeping up with the rate set by the government. Firstly, the officials are under the pressure of the so-called 'forecast plan', which means that they are held personally responsible for meeting 'forecast indicators'. In most cases transformation into a joint-stock company and selling the state's shares entail a failure to meet the major forecast indicators, such as output growth, maintaining the number of jobs and contributing to local budgets. This is particularly true of inefficient enterprises. Secondly, transformation into a joint-stock company requires extra funds, which cannot be allocated so easily, considering the working capital deficit. After all, the preparation of privatisation documents costs $2,000 – 50,000 in the 2007 prices. And the last but not the least, executives of state enterprises can rely on deferment of payments, privileged loans and other preferences.

The transformation and privatisation procedures seem to be oriented towards the state's hypercontrol both in stock-taking, property evaluation, preparing the required documents (only a limited number of companies are allowed to do this) and weighing up investment proposals. It all seems to be aimed at dealing with investors 'on an individual basis'.
The main inner limitations affect Belarus's international ratings, including the World Bank's annual 'doing business' rating. It may be true that in the 2008 rating Belarus has moved to the 85th position due to the legislative initiatives covered in Part 2. But under the conditions of growing risks throughout the region, such estimates of the country's business-climate do not seem highly attractive for investors.

Table 6. Doing Business Ratings for Belarus

	2005 Rating	2006 Rating	2008 Rating
Starting a business	153	148	97
Licensing	88	84	
Hiring workforce	36	31	49
Property registration	91	96	14
Obtaining a loan	76	117	109
Protection of investors' interests	141	142	104
Tax paying	175	175	181
Doing foreign trade	106	113	134
Fulfilling contracts	36	36	14
Liquidating a company	97	91	71
Overall rating	124	129	85

Source: World Bank (2007). Doing Business. How to Reform. http://www.doingbusiness.org

7. Conclusion

Thus, on the one hand, the government is demonstrating certain willingness to privatise state property and privatisation process is gaining some impetus, while economic activity in general is experiencing a degree of liberalisation, combined with an urgent need for funds to stabilise the economy. On the other hand, there are significant limitations to large-scale privatisation due to a drastic change in the external conditions and some inner institutional hindrances. However, in some cases these may facilitate privatisation deals on agreement rather than be an obstacle.

For example:
1. As BPN-2 evidently has to be cancelled or put off, it increases the chances of the Belarusian pipelines to Russian companies. In this respect it should be mentioned that:

- *Transneft*'s actual financial condition prevents it from carrying out two simultaneous projects, such as Eastern Siberia – The Pacific Ocean (ESPO) and BPN-2. ESPO is now being financed on credit. The company has limited access to loans and credit resources. (http://rosfincom.ru/market/34530.html; http://stock.rbc.ru/demo/micex.5/daily/TRNFP.rus.shtml?show=6M; http://www.vedomosti.ru/newspaper/article.shtml?2008/11/07/167779)

- late in October *Transneft* and the Chinese National Petrochemical Corporation (CNPC) signed an agreement on the basic principles of Skovorodino – the CPR border pipeline construction and exploitation, which means that the opponents of the company's present chief executive V. Tokarev won in the lobbying confrontation. The Russian government has not authorised BPN-2 project so far.

- *Homieltransneft Druzhba* is on the 2008 privatisation list.

- On 31 October it got a new chief executive, which may be regarded as an indirect proof that the government is prepared to sell this asset. (It should be mentioned that changing the chief executive before selling an enterprise has become a rather common practice.)

- Belarus will benefit from the sale, as it will put off indefinitely BPN-2, if not bury it altogether forever. Considering the fall in oil production in Russia and ESPO construction, there may not be enough oil for BPN-2. This guarantees the transportation of Russian oil along the southern Belarusian *Druzhba* line for years ahead (ten years at least). The definitely high share of the Belarusian route in Russian oil transit to Europe strengthens Belarus's position in Belarus – Russia negotiations on the terms of oil trade. Consequently, it increases the chances of extending the oil price gap for Belarus and the rest of the region over a long period of time, which makes the Belarusian oil refineries look more attractive for investors. Moreover, co-ownership of the pipeline makes it safer and improves its modernisation prospects.

- In a way, the deal seems to be also beneficial for the EU countries, especially oil-transporting ones (except for Ukraine, as it actually leaves no chance of Odessa – Brody pipeline functioning in the direct mode). Since Russian companies are not going to have excessive transit capacities, they will be unable to make the transit countries practice dumping in order to get Russian transit.

- On certain conditions (e.g. payment by instalments) *Transneft* could agree to this deal, as such an asset may have a positive impact on the company's capitalisation. Perhaps *Rosneft* might be even more interested in this deal.

2. The same refers to the prospects of the construction of the second Yamal – Europe line and the North European Gas Pipeline, even if to a lesser extent. Here the potential partners could be Polish and German companies. By and large, infrastructure investment projects with a view to increasing Russia's export capacities may well find motivated partners.

3. Presidential Decree 22, which guarantees that personal deposits should be completely secure, makes Belarusian banks more attractive for investors, considerably diminishing their risks. Protected by such a guarantee, the banks have fewer reasons to fear the consequences of credit squandering due to investing in state programmes. Meanwhile, the gap between lending rates on the international and domestic markets gives new owners a good chance to make a profit.

4. In addition, it is possible that some real economy enterprises will be sold, especially if the enterprise in fact goes together with its market sector. As the Belarusian government brings up more and more protectionist barriers against imports as the main tool to combat the adverse balance, this is going to refer to more and more enterprises.

8. Main Findings and Recommendations

Privatisation in Belarus is certain to be continued. In general these will still be direct deals on agreement with state institutions, their rank in the state hierarchy depending on the importance of the enterprise to be acquired.

In most of these deals, the enterprises' chief executives (and perhaps state officials supervising the deal) will be changed either just before striking the deal or immediately after. In any case, this is something that both the enterprises' management and investors should be prepared to.

Acquisition of a share in the company or even taking it over does not free it from either its duty to meet the 'forecast goals' or the government's and local authorities' 'recommendations' or pricing regulations, etc. By and large, it can be argued that a new owner is only entitled to his share in profits, if any, but he will have to co-ordinate the company's economic policy with the state policies and their vision by different office-holders.

Some investors may find these terms quite attractive, particularly concerning enterprises firmly controlling their market sector, infrastructure or low risks.

'Single-point privatisation' may help the government stabilise the fiscal system at some critical points, giving a time-lag for efforts aimed at making the economy more attractive for potential investors. The goal may seem difficult to achieve, but it is an absolute necessity. Belarus is not the only country experiencing certain hardships due to the global financial meltdown. In comparison with others, it may even in some ways turn the situation to its advantage.